Before The
U.S.-China Economic And Security Review Commission

Testimony Of
Jerry Vanden Eynden On Behalf Of
Candle-Lite & National Candle Association
Impact Of U.S.-China Trade And Investment On Ohio's Economy

Akron, Ohio
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On behalf of Candle-lite of Lancaster Colony and the National Candle Association ("NCA"), I appreciate the opportunity to appear before you today. I am Jerry Vanden Eynden, President of Candle-lite. Our headquarters are in Cincinnati, Ohio and our production facilities are locate din Leesburg, Ohio. Ohio plays a significant role in U.S. candle production. Fifteen members of NCA are located in Ohio. NCA was the Petitioner in the original antidumping investigation and participated as an interested party in four Administrative Reviews, four New Shipper Reviews, and the first Sunset Review of the Antidumping Duty Order (the "Order"). NCA also participated in approximately 102 investigations regarding the scope of the Order.

We believe that U.S. manufacturers should not outsource American jobs, or move production to China. There is an alternative. Instead, we should fight for our share of the U.S. market by using the U.S. unfair trade laws to ensure fair competition in the U.S. market. The U.S. candle industry has proven that PRC candle producers are dumping candles in the U.S. market and, as a result of an antidumping Order, we are able to successfully compete against candle imports from the People's Republic of China ("PRC" or "China").

On September 3, 1985, NCA filed an antidumping Petition with the Department of Commerce (the "Department") and the International Trade Commission (the "Commission") against petroleum wax candles from the PRC. The U.S. candle market had experienced huge increases in the volume of such candles being unfairly traded from the PRC, causing domestic candle manufacturers to experience significant loss of customers, loss of sales, erosion of profits, employee layoffs, underutilization of capacity, companies going out of business, and a decline in financial performance. For the period of 1979 through 1985, the volume of PRC imports of candles into the United States increased by 4,077% (710,000 pounds in 1979 to 28.7 million pounds in 1985), and the PRC share of total imports increased from 1% in 1979 to 46% in 1985. Over that same period, the number of producers of candles in the United States declined as 30 companies went out of business. The price undercutting by PRC producers was so severe that PRC candles were being sold in the U.S. market at prices below the cost of the raw material, petroleum wax, to U.S. producers. U.S. producers were unable, even with their advanced technology, to produce candles at costs low enough to prevent further erosion of market share to the unfairly traded PRC imports.

On July 10, 1986, the Department issued its final determination. The Department found that the PRC candles were being sold in the United States at less than fair value and that the dumping margin was 54.21%. In August 1986, the Commission issued its final affirmative determination wherein it found that an industry in the United States was materially injured by reason of imports of candles of petroleum wax from the PRC. On August 28, 1986, the Department issued the Antidumping Duty Order.

The Order has been remarkably effective over its 18-year history. The imposition of the Order in 1986 allowed the domestic industry to recover from the material injury that the Commission found in the original investigation. This turnaround in industry performance was the direct result of a dramatic reduction in imports from the PRC in the year the 54.21% antidumping duty was imposed. From the record level of 28.9 million pounds reached in 1985 (the last year of the original period of investigation), imports fell by 80% in 1986 to 5.7 million pounds. Imports from the PRC fell even further in 1987 and remained below the 1985 level well into the 1990s.

The large decline in the quantity of imports from China was accompanied by a dramatic increase in the price of candle imports from China. During the years 1983-1985, or the original period of investigation, the average unit value of imports from China ranged from $0.44 to $0.51 per pound. These prices were well below, or approximately half, the average unit values of imports from all other countries. The low prices of imports from China likewise undersold domestic producers. The Commission stated in the original investigation that pricing data for Chinese candles reflect large margins of underselling for all candle varieties examined during the period of investigation." The Commission also found that, even in the 1983-1985 period of the original investigation, Chinese candles offered a direct substitute for domestic candles across all candle types and in all major market segments. The combination of widespread underselling and direct substitutability between Chinese candles and domestic candles led inevitably to price depression in the U.S. market. As imports from China took an increasing share of the U.S. market from domestic producers, Chinese candles forced domestic prices downward by 8% over the period of investigation.

The imposition of the Order had a major upward influence on Chinese import prices and reversed the price depression evident in the U.S. market. In 1986, the average unit value of imports from China rose to $0.71 per pound, or 40% above the 1985 level. In 1987, the average unit value rose again to above $1.00 per pound, a level that took the average price of Chinese candles above that of imports from non-subject countries. This strong upward movement in Chinese import prices was due in part to product mix changes, as imports from China included more higher-priced novelty-type candles not included within the Order. It also reflects the positive impact of the Order on prices of candles within the order, which represented the vast majority of candles consumed in the U.S. market. The average unit value of imports from China continued to rise from the late 1980s into the mid-1990s. More importantly, it remained well above the average unit value of candle imports from all other countries over that period.

The pricing environment for U.S. producers was greatly improved as margins of underselling were greatly reduced or eliminated and the price depression evident in the period of investigation was reversed.

The continuing impact of the Order on the quantity and price of imports from China permitted the domestic industry to thrive during the 1990s, when candle demand increased strongly. The expanded role of candles in household and personal use, particularly as a fragrance delivery device, lead to annual demand growth rates of up to 20% during this period. There were two components to this increasingly popular function. One was the health-oriented practice of aroma therapy, which involves the burning of candles containing essential oils with reputed therapeutic effects. The second was a marked shift in consumer taste generally toward the use of scented candles of all kinds. This fragrance delivery function augmented the more traditional use of candles for the type of light, ambiance, and decor they can provide.

Candle producers uniformly reported that candle demand experienced strong growth during the early and mid-1990s. Toward the late 1990s, the quantity of apparent domestic consumption of candles had more than tripled from the consumption levels measured by the Commission in the original investigation. This rapid growth was a strong contrast to the consumption trend during the original period of investigation. Over the three-year period 1983 to 1985, the quantity of apparent domestic consumption rose at an annual compound rate of less than 6%, while consumption in terms of value was essentially stable. The stable dollar consumption was in large part the result of the price depression caused throughout the U.S. market by sharp rises in imports of dumped candles made in the PRC.

In its 1999 Sunset Review determination, the Commission noted the substantial growth in apparent domestic consumption that had occurred since the original investigation, and that domestic producers, importers of candles from China, and importers of candles from non-subject countries have shared in this growth.

Since the Commission’s 1999 Sunset Review determination, however, the economic performance and financial condition of the domestic industry has weakened. Despite the continuation of the Order at the same antidumping rate of 54.21%, domestic production and shipments have declined, while industry profitability has fallen. The industry is thus particularly vulnerable. The weakened state of the industry can be attributed to two factors: 1) low growth in U.S. candle demand, and 2) continued growth in imports from China, despite the Order.

As the domestic industry predicted in the last Sunset Review, the exceptional growth in the popularity and use of candles that occurred during most of the 1990s ended as that decade came to a close. The ending of this unusual period of demand growth, combined with the recession of 2001, resulted in little growth in U.S. candle consumption over the last five years. Based on a survey conducted under the auspices of the NCA, domestic production of candles in 2003 is actually *lower* than domestic production in 1998.

Despite the weakening of U.S. demand, candle imports from China nevertheless continued to increase. Over the period of 1988 through 2003, imports from China more than doubled from 86.6 million pounds to a record 183.6 million pounds. In contrast, imports from all other countries actually declined over the same period by 16%, falling from 214.1 million pounds in 1998 to 179.9 million pounds in 2003. This same trend of increasing imports from China and decreasing imports from non-subject countries has continued strongly in 2004.

Chinese candle exporters responded to the decline in U.S. consumption by simply increasing the margin of dumping dramatically. This intensified dumping permitted Chinese exporters to undersell both domestic producers and non-subject imports despite the existence of the 54.21% country-wide margin.

The re-emergence of significant underselling by imports from China, even with the Order, can be traced to 1998. There was a notable sharp decline in the average unit value of Chinese candle imports from $1.52 per pound in 1997 to $1.00 per pound in 1998. This large price decline accompanied the surge in the quantity of imports in 1998 and brought the average per-pound price of imports from China to a level not seen since 1986.

This decline brought the unit value of imports from China well below the unit value of imports from all other countries. This reversed the pattern of overselling by imports from China relative to imports from all other countries that had prevailed since 1987, or for a decade. The unit value of imports from China has remained at or significantly below $1.00 per pound from 1998 to today.

The large decline in the price of imports from China created chronic, significant price pressure throughout the U.S. market over the last five years. Even the beneficial impact of the 54.21% antidumping duty was not sufficient to prevent an intensifying competitive pricing environment from harming domestic producers.

The intensification of dumping was confirmed and measured through the administrative review process at the Department of Commerce. Between 1986, when the antidumping order was first imposed, and 2000, there was only one administrative review of the order. This review in 1988 of one Chinese exporter re-confirmed the 54.21% rate for all Chinese producers and exporters. However, in response to the Customs crackdowns, Chinese producers and exporters dropped their prices sharply, and began to request administrative reviews by the Department of Commerce.

The first of these reviews to actually calculate an antidumping margin yielded a margin of 95.22% for the exporter that requested the review. The period covered by this review was August 2000 – January 2001, and the much higher margin found by the Commerce Department reflects accurately the impact of the sharp drop in Chinese candle prices that occurred in 1998. Increased dumping was further confirmed by an administrative review covering the period August 2000 – July 2001. This review yielded a calculated rate of 65.02% for the Chinese producer/exporter.

In an effort to make the antidumping order reflect the actual magnitude of intensified dumping affecting the U.S. market, the NCA initiated a major initiative in August 2002, requesting administrative reviews of 104 Chinese producers and/or exporters. This request covered firms that the NCA believed accounted for the majority of imports of subject merchandise. The administrative review period covered imports during August 2001 – July 2002. The result of this major review was a new calculated rate of 108.30%, which was applicable to all Chinese producers and exporters. The NCA believes that this result, effective as of April 19, 2004, brought the antidumping order more closely in line with the magnitude of dumping that is actually occurring and that has been ongoing for several years. This result clearly confirms the intensification of price pressure from candle imports from China in the U.S. market that has seriously affected U.S. producers over the period since the last Sunset Review by the Commission. The 108.30% antidumping brings the Order in line with the current PRC dumping practices, levels the playing field in the market, and enables U.S. candle companies to again compete effectively with PRC imports.

Without the Order, or if it were revoked, the volume of imports of candles from China would increase dramatically, both in absolute terms and relative to production and consumption in the United States. The NCA estimates that, at a minimum, imports from the PRC would double within a reasonably foreseeable time. How quickly this increase in imports would occur is tied to the speed at which the PRC would be able to 1) divert current production to the open U.S. market; 2) ramp up production with existing facilities to process excess PRC-produced paraffin wax into candles for the U.S. market; and 3) ramp up new automated capacity to expand candle production further.

Diversion of current production and an increase in production at existing facilities would occur immediately upon revocation. For more than a decade, the PRC industry has purchased and installed significant new capacity based on state-of-the-art automated candle-equipment from Europe. Indeed, as early as the 1980s, a U.S. candle producer -- San Francisco Candle -- moved its advanced candle equipment to the PRC. Since the mid-1990s, the PRC is known to have bought significant amounts of modern machinery, much of it purchased directly from Germany, the primary source of advanced candle making machinery. Fushun, the largest PRC petroleum wax refinery, bought German candle equipment for the candle factory it built next to its refinery.

In addition, a significant PRC production base exists based on more traditional, labor-intensive production methods and supported by large amounts of used candle production equipment available in China and elsewhere. Finally, many candle producers in China do not produce candles year-round, but rather utilize their facilities to supply the market during the heaviest seasonal demand. As a result of all of these factors, utilization of existing capacity can be increased rapidly to affect a large increase in supply.

The purchase and ramp-up of new candle production capacity is also likely to begin immediately and continue for the foreseeable future. Although its impact would not be immediate, the building of new candle production facilities with the most sophisticated, automated technologies would also add significantly to Chinese candle supply available to the U.S. market within a reasonably foreseeable time. The addition of such capacity would be only a continuation of the long-term expansion by Chinese producers of their production capacity through investment in state-of-the-art candle-producing machinery that has been ongoing for more than a decade.

An equally important factor in the likely surge of imports from China upon revocation is the large and growing capacity of China to produce petroleum (paraffin) wax. The availability of excess paraffin wax in China would support a massive expansion of Chinese candle production, most of which would be intended for export to the United States.

Consistent with this wax production capability, China has dramatically increased exports of paraffin wax to the U.S. since the mid-1990s. In 1996, U.S. imports of paraffin wax were a negligible 10 million pounds, or only 5.4% of total U.S. imports. By 1998, the last year of the period reviewed in the prior Sunset Review, paraffin wax imports from China had grown to 106.4 million pounds imports, or 37.4% of total U.S. paraffin wax imports.

By 2003, imports from China had tripled to 309 million pounds. In the first half of 2004, imports from China increased to 256 million pounds or 50% more than the same period in 2003. In the first half of 2004, imports from China accounted for 73.3% of total U.S. imports of paraffin wax.

Absent the Order, candle imports from China would increase dramatically, as much of the Chinese petroleum wax would enter the U.S. in the form of candles, rather than as the raw material. Imports of paraffin wax from China in the first half of 2004 alone are far above the total pounds of candle imports from China. Thus, China could rapidly double their candle exports to the United States.

Finally, there is incontrovertible evidence in the track record of Chinese producers that China can rapidly increase the volume of dumped imports of candles over a short period of time. This occurred prior to the original investigation, when imports from China increased from negligible levels in 1979 to 28,949,000 pounds in 1985, capturing 19% of the U.S. market in the process. Over that period, China's share of total imports increased from 1% in 1979 to 46% in 1985. Even with the Order in place, imports from China tripled in the space of only three years, rising from 45.9 million pounds in 1997 to 151.9 million pounds in 1999.

Revocation of the Order would greatly reduce the prices at which PRC candles are sold in the U.S. market and cause significant depression in domestic producer prices. Candles are a widely-consumed, popular consumer product that is sold through well-established channels of distribution in large volumes. The candle market is thus very price sensitive. As a result, domestic producers must meet lower quotes from sellers of Chinese candles whenever offered. In fact, even with the Order in place domestic producers find that Chinese product is offered at low prices for virtually every candle type, in all market segments, and through all channels of distribution.

There is considerable product differentiation within the candle market, differentiation that involves a combination of the intended end-uses (e.g., light, atmosphere, relaxation, decor, fragrance, religious or holiday celebration, etc.), the channel of distribution (e.g., mass merchandisers, specialty/gift shops, department stores, etc.), the type of candle (e.g., votive, tapers, columns, wax-filled containers, large pillars, etc.), and the particular characteristics of the candles (e.g., scented or unscented, decoration, color, etc.). Despite this extensive product differentiation, Chinese candles compete in virtually every market segment with every type of candle.

Of particular importance to both Chinese and domestic suppliers are the very high-volume sales to the mass merchandiser market segment. This segment is traditionally defined as large discount retailers, such as Wal-Mart and Target Stores, plus the food store and drug store chains.

This market segment is now estimated to account for approximately 60% of the total U.S. market. Customers in this segment are extremely price sensitive due to the high volumes involved and competition among retailers. These large discount retailers and chain stores will switch suppliers readily, based on relatively small changes in price. It is in these high-volume segments wherein domestic producers have had their greatest success as a direct result of the Order. Likewise, it is in this same segment where the most immediate and dramatic price depression would re-appear if the Order were revoked. Revocation of the Order would cause a comparable downward spiral on prices throughout the market.

Without the Order, there is a certainty of very significant margins of underselling guaranteed to occur. There already is a significant Chinese presence in the market with notable instances of underselling by candles from China even with the Order. Such underselling contributed, for example, to the doubling in the quantity of imports from China from 1997 to 1999. It has also been a key factor in the continued growth in imports from China in the recent period of weakened demand.

This pricing behavior by Chinese exporters can be properly interpreted as a dramatic escalation of dumping in an aggressive attempt to capture a much larger share of the U.S. market, seemingly irrespective of costs. As found by the Commission in the original investigation, the PRC had captured 19% of the U.S. market by 1985, up significantly from the 12% market share held only two years before. During this same period, the Commission also reported significant price declines for domestic producers, despite increasing demand for candles. The average price of domestic shipments fell from $1.59 in 1983 to $1.42 in the first quarter of 1986. Continued price depression and more severe injury to the domestic industry were halted by the Order.

Today, U.S. producers are acutely aware of the PRC's presence, experience, and potential in the candle market. Without the Order, the immediate price decline is expected be much larger than the 8% price decline experienced by domestic producers in the original period of investigation, particularly in view of the recent determination of the Department of Commerce that increased the dumping margin on all subject merchandise to 108.30%, or double the 54.21% rate that was found during the original investigation in 1986. Without the Order, price declines will be immediate, with the quantity effects on domestic output, sales, and market share becoming increasingly severe. The NCA estimates that a significant portion of the domestic industry would be forced to close operations and exit the market. Commensurate with the expected large decline in production, employment effects would be severe. Anticipated losses of production and related worker employment directly in the industry are in the thousands.

Without the Order, the combination of the expected declines in prices and sales quantities would yield a severe decline in domestic sales revenues and profitability. The reduction in cash flow would be enormous, hindering the ability of companies that remained in business to invest in plant and equipment and new product development. The ability to raise capital would be severely compromised, not simply because of the downward trend in industry sales and profits, but also because of the high risk and reduced prospects of adequate return on any such investment absent the Order. This anticipated inability to raise capital would be in sharp contrast to the large investments made by the industry since the Order was imposed. Domestic companies as a whole raised and invested hundreds of millions in their domestic candle operations since the Order was imposed.

Without the Order, there would be reduced investment by companies in new product development and marketing. With the Order, the industry has witnessed an explosion in new candle product types and uses, reflecting the creativity of U.S. candle producers in an environment of expectation of reasonable profits and return on investment. Not only would new product development and marketing slow to virtually nothing, the candle market itself would likely stagnate, as company financial support of efforts to increase consumer choice, value, and satisfaction dwindled.

Without the antidumping Order, the U.S. candle industry would have been destroyed by unfairly traded PRC candle imports. The U.S. unfair trade laws were enacted to ensure fair competition between U.S. produced and imported products. These laws are effective. The enforcement of the antidumping law has saved the U.S. candle industry as well as other industries. We urge other U.S. producers who are being injured by unfairly traded PRC products to fight for their markets and rely on U.S. trade laws to offset the PRC unfair trade practices. We also urge the U.S.-China Commission to defend these important trade laws against dilution in the WTO negotiations and/or negotiations with China.

Respectfully submitted,

Jerry Vanden Eynden
President
Candle-Lite of Lancaster Colony Corp.

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